

Companies with purpose: The future of business

The following results are based on IBM's Global Purpose Study, conducted by Morning Consult in November 2019.

"Society is demanding that companies, both public and private, serve a social purpose. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."

— Larry Fink, chairman and chief executive officer of BlackRock

Why purpose?

To generate long-term value and maintain relevancy in today's global economy, companies need to infuse purpose into their operations. Built on a commitment to core values, **purpose** is the underlying motivation for why a corporation exists as well as the driving force behind corporate actions. By establishing a standard framework for responsible corporate behavior and actions—a company's values inform, motivate and catalyze decision-making. Purpose based brand value propositions are now driving consumer purchasing decisions more than ever.

87% of customers state they purchase goods based on a company's advocacy on social matters.



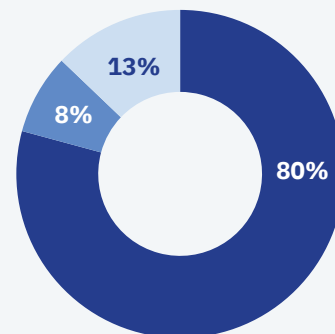
89% of U.S. shoppers are likely to switch to a cause-branded product when choosing between two brands of equal quality and price.¹

In short, an organization's entire strategy is reflective of its sense of purpose. In order to execute a successful purpose driven strategy, it is imperative for companies to consider what elements of corporate social responsibility resonate with their brand and consumers.

Purpose vs. profit

IBM's Global Purpose Study, conducted by Morning Consult, found that **80% of global respondents agreed more strongly with the statement that corporations have a responsibility to prioritize their employees, the environment and their community** as much as they prioritize delivering profits to their shareholders. Comparatively, only **8%** of respondents agreed that corporations only have a responsibility to prioritize delivering profits to their shareholders.

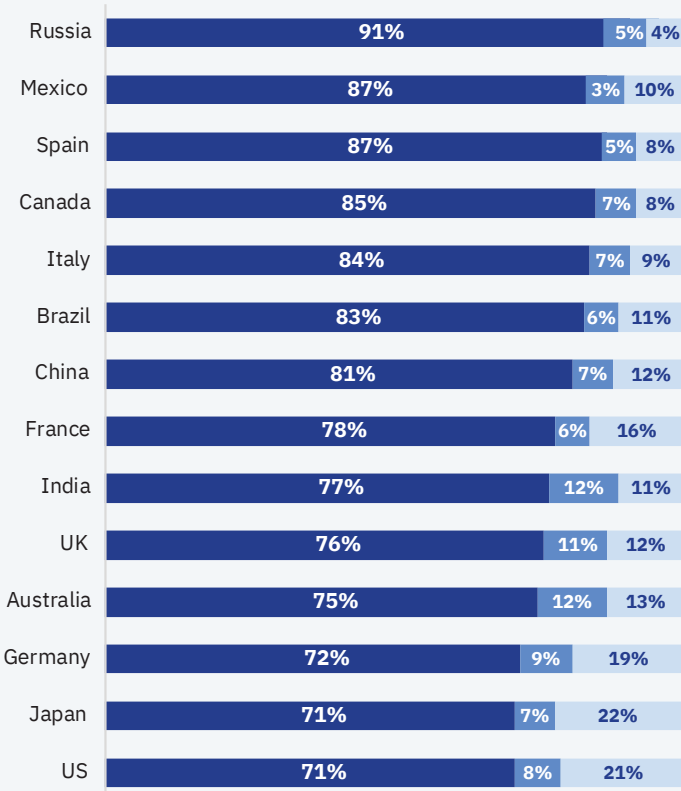
4 out of 5 respondents globally say corporations should prioritize purpose as much as profit



- Corporations have a responsibility to prioritize their employees, the environment and their community as much as they prioritize delivering profits to their shareholders
- Corporations have a responsibility to prioritize delivering profits to their shareholders only
- Don't know/No opinion

¹ "2017 Cone Communications CSR Study," Cone, A Porter Novelli Company, 2017, <https://www.conecomm.com/research-blog/2017-csr-study>

This trend holds true globally
[Reflective of total positive impact]



- Corporations have a responsibility to prioritize their employees, the environment and their community as much as they prioritize delivering profits to their shareholders
- Corporations have a responsibility to prioritize delivering profits to their shareholders only
- Don't know/No opinion

This trend holds true across each country surveyed individually. At least **71%** of respondents in every country agreed that corporations should equally prioritize delivering profits with other considerations, and no more than **12%** in any given country agreed that corporations only have a responsibility to prioritize delivering profits to their shareholders.

Respondents in Russia were most likely to agree that corporations have responsibilities beyond delivering profits to shareholders, with **91%** agreeing with the more comprehensive statement. Respondents in Australia and India were the most likely to believe (**12%**) that corporations are only responsible to their shareholders.

Purpose drives brand favorability

Top brand favorability drivers by country

Respondents were asked to what extent corporate action toward various purpose-driven priorities, such as environmental consciousness and investing in employees, would impact their opinion on corporate brand favorability.

At a global level, environmental consciousness was indicated as most important to improving corporate brand favorability, with **78% of respondents saying they would feel much or somewhat more favorable towards an environmentally conscious corporation.**

Top favorability drivers
[Reflective of total positive impact]



In Australia (**77%**), Germany (**72%**) and Russia (**87%**), **promoting quality jobs and skills** is most helpful to corporate favorability.



In the UK (**70%**) **delivering value to customers** is most helpful to improving corporate favorability.



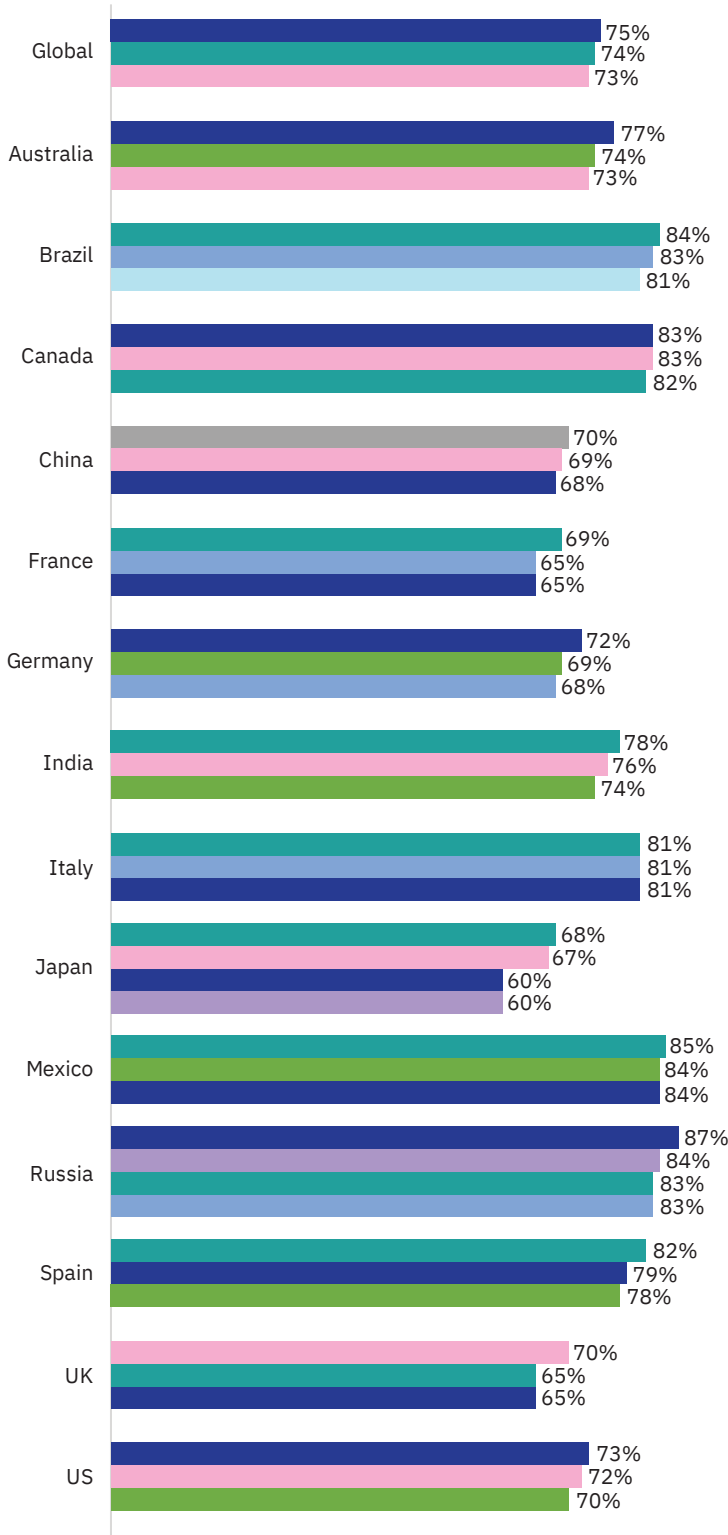
In China (**70%**), **promoting diversity and inclusion** is most helpful to improving corporate favorability.



Promoting diversity and inclusion is less likely to lead to an increase in favorability compared to other metrics in most nations, especially in Japan (**31%**) and Germany (**45%**).

Top 3 favorability drivers by country

[Reflective of net impact data]



- Being environmentally conscious
- Expanding economic opportunity in underserved communities
- Supporting the communities in which they work
- Investing in employees
- Delivering value to customers
- Promoting diversity and inclusion
- Promoting quality jobs and skills, including investing in the future of the workforce
- Data responsibility, including promoting data privacy and security

Top favorability drivers by generation

Breaking down the results even further, when looking across all age groups, **being environmentally conscious remains the highest driver of brand favorability (78%)**. When dissecting the results by generation, respondents aged **18-29 (74%)** and **50 and over (83%)** had their favorability most impacted by being environmentally conscious, followed closely by **promoting quality jobs and skills, which had the most impact on those aged 30-49 (77%)**.

Environmental consciousness drives favorability across generations

[Reflective of total positive impact, % indicating more favorable with an action towards each priority]



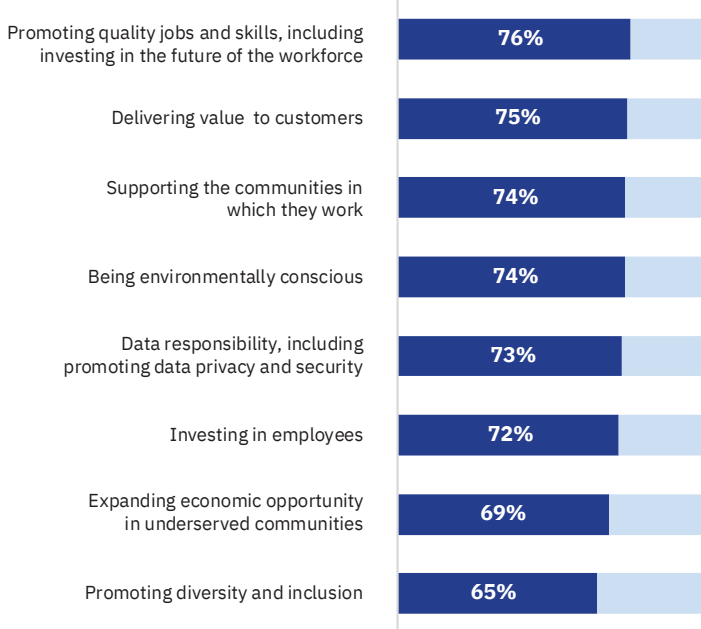
Purpose drives business

Top business drivers by country

Respondents were asked to what extent corporate action toward various purpose-driven priorities, such as environmental consciousness and investing in employees, would impact their likelihood to conduct business with a company.

At a global level the top driver of business was **promoting quality jobs and skills – including investing in the future of the workforce and delivery (76%)**.

Top business drivers
[Reflective of *total positive impact*]



When reviewing the data by country, there is more variance in the top drivers for business impact:



In particular, respondents in Russia (**87%**) and Mexico (**87%**) report being significantly more likely to do business with corporations that take specific action towards **promoting quality jobs and skills**.



Australia (**71%**) and India (**79%**) are more likely to conduct business with companies that **support local communities**.

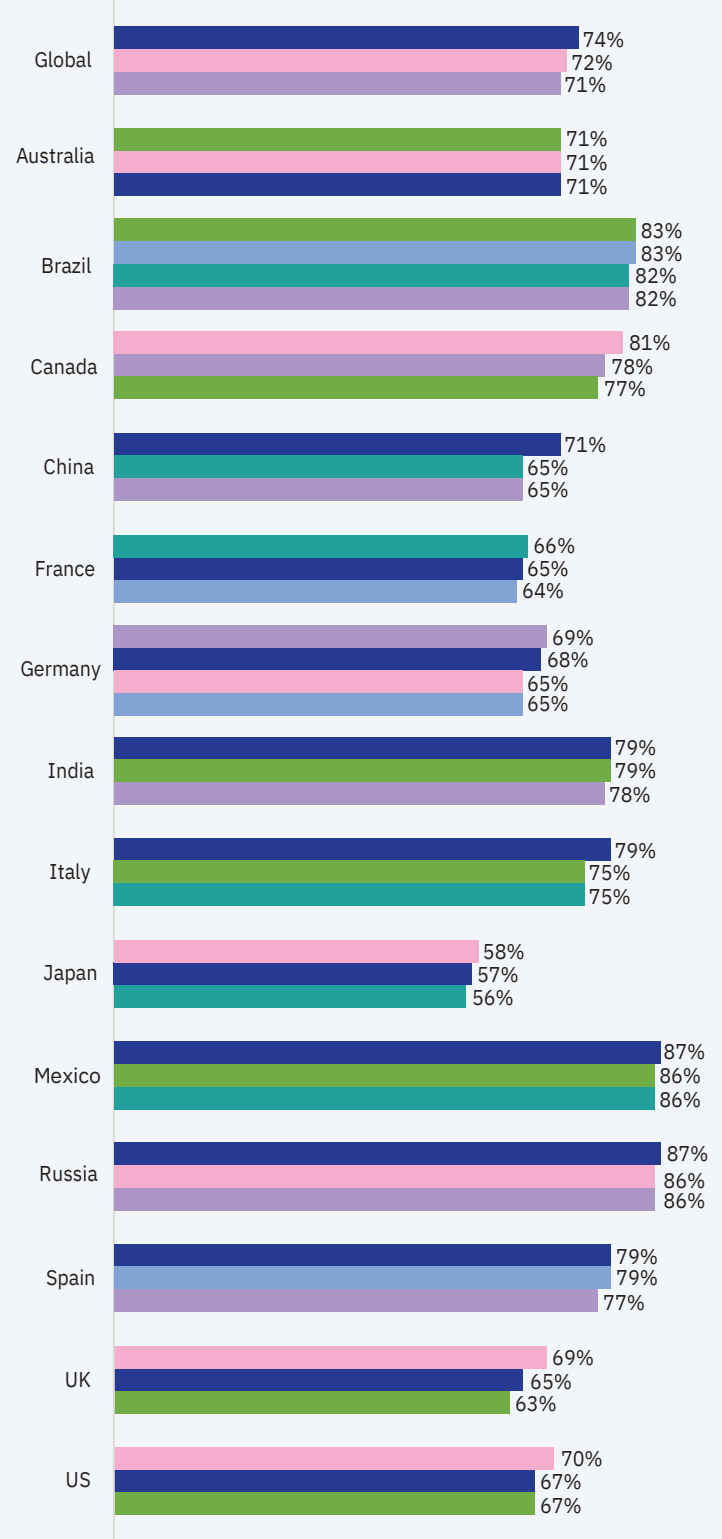


Brazil (**83%**) and Spain (**79%**) care more about **investing in employees**.



Delivering value to customers takes precedence in Canada (**81%**), Japan (**58%**), UK (**69%**) and the US (**70%**).

Top business drivers by country
[Reflective of *net impact data*]



- Being environmentally conscious
- Supporting the communities in which they work
- Investing in employees
- Delivering value to customers
- Promoting quality jobs and skills, including investing in the future of the workforce
- Data responsibility, including promoting data privacy and security

Top business drivers by generation

When looking across all age groups, promoting jobs and skills remains highest driver of business (76%). When dissecting the results by generation, those **50 and over (80%) were most likely to be impacted in their business dealings by a company delivering value to customers**, while **promoting quality jobs and skills had the strongest impact on 18-29 year old respondents (72%) and 30-49 year old respondents' (77%)** likelihood to do business with a corporation.

Promoting jobs and skills drives business across generations

[Reflective of *total positive* impact, % indicating more likely to do business with that corporation]



Case studies

LEGO

When a partnership with a major oil company unexpectedly resulted in a PR crisis that put LEGO's brand at risk, the company reclaimed its positive reputation by undertaking a series of sustainability goals in line with its corporate mission "to inspire and develop the builders of tomorrow."

LEGO established strong partnerships with agencies like the World Wildlife Fund to execute sustainability initiatives that encompassed all aspects of the toymaker's supply chain — including materials, production and packaging.

Informed by core values, Lego's extensive investment in corporate social responsibility and commitment "to leave a positive impact on the planet, which future generations will inherit" ultimately allowed the beloved company to successfully rebuild its brand.²



Patagonia

Companies and brands fail to execute corporate purpose when their core values and beliefs do not align with their behavior and actions. When purpose is used merely as a marketing tactic or advertising tagline, the lack of authenticity is transparent.

At Patagonia, the environmental stance is embedded into the culture. They have stated that when Patagonia has a job opening, all things being equal, they will hire the person "who's committed to saving the planet no matter what the job is."

Patagonia's commitment to corporate social responsibility is fully integrated into its business model. In terms of corporate purpose strategy, Patagonia succeeds because it is "uniquely laser focused on the environment, not as a way to connect, but as a life-long commitment to why they exist."³



² "How Lego Rebuilt Itself As A Purposeful And Sustainable Brand," Simon Mainwaring, Forbes, 11 August 2016, <https://www.forbes.com/sites/simonmainwaring/2016/08/11/how-lego-rebuilt-itself-as-a-purposeful-and-sustainable-brand/#4607c7566f3c>

³ "Case Study: Patagonia goes against the norms of business, and it works," Graham Robertson, Beloved brands, <https://beloved-brands.com/2019/04/22/patagonia/>

Purpose and profits

Though there are nuances by country, this global study found that there is a strong positive relationship between corporate purpose and workers' perception of corporate favorability and likelihood to do business.

Research from the EY Beacon Institute and Harvard Business School found that **58%** of companies with a clearly articulated purpose experienced **10%** or more of growth.⁴ Effectively, in today's society purpose is a driving force that is necessary to propel a company forward.

The results indicate that for companies looking to expand their brand favorability, the largest driving force of positive perception is incorporating environmental consciousness into their mission and values. If companies are looking to increase business, the largest driver is promoting jobs and skills.

Corporate action toward purpose-driven priorities demonstrates commitment to the countries, regions, and communities in which they operate, which ensures long-term value creation, and ultimately strengthens the link between purpose and profits. In order for purpose to generate real organizational impact, it must be authentic to the organizational values of the company. A pathway to achieve this is through embedding corporate social responsibility into an organizations core strategy.

Purpose and Corporate Social Responsibility

Shifting business and consumer trends have led to an elevated interest in corporate social responsibility, a business practice where corporations hold themselves accountable to serve a social purpose and make a positive impact on their communities, the environment, and their employees.

Major employers are investing in their workers and communities because they know it is key to achieving long term success. From 2011 to 2018, the number of Fortune 500 companies publishing corporate social responsibility reports grew from under **20%** to over **85%**,⁵ signifying that companies are acknowledging and addressing corporate social responsibility as an escalating stakeholder priority. No longer is corporate social responsibility optional for companies; it is imperative to a company's success. By capitalizing on corporate social responsibility, companies have much to gain by demonstrating their authentic and comprehensive focus on purpose.

Now more than ever, businesses are recognizing the tangible and intangible benefits of integrating corporate social responsibility with business. No matter where a company is on their purpose trajectory, there are three main ways corporate social responsibility can demonstrate an authentic and comprehensive purpose:



Generate consumer loyalty



Drive employee engagement



Provide impact to stakeholders

⁴ "The New Bottom Line: Why Businesses Must Find Purpose Beyond Profit," Salesforce blog, 24 June 2019, <https://www.salesforce.com/blog/2019/06/purpose-driven-business.html>

⁵ "Flash Report: 86% of S&P 500 Index® Companies Publish Sustainability / Responsibility Reports in 2018," Governance & Accountability Institute, INC , 16 May 2019, <https://www.ga-institute.com/press-releases/article/flash-report-86-of-sp-500-indexR-companies-publish-sustainability-responsibility-reports-in-20.html>

Consumer loyalty

Research shows that consumer trends are shifting – respondents from the Morning Consult survey indicated that corporate action toward various purpose-driven priorities impacts brand favorability. The rise of the internet and proliferation of social media has enabled near instant transmission of information, public reviews, and increased scrutiny of large organizations. Accordingly, consumers are more informed than ever.

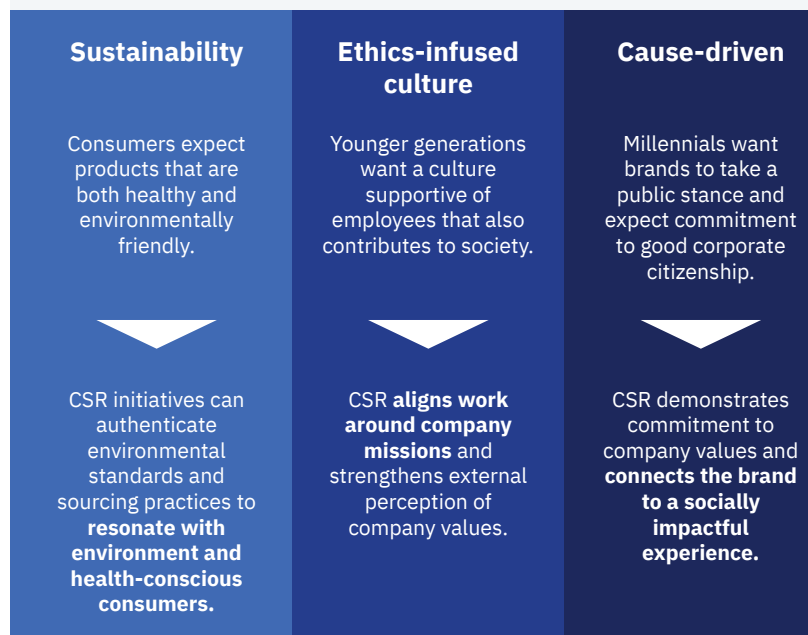
Today, connecting with customers is key to unlocking value and demonstrating purpose. As a result of increased awareness, society has become more attuned to ethical sourcing and the environmental impact of consumption. Purpose-driven customers focus more on environmental and social accountability, caring less about price and status. Consumers are even willing to pay more and change their behavior for brands that get it right. Based on analysis of primary research studies, the IBM Institute for Business Value found that, “on average, **70%** of purpose-driven shoppers pay an added premium of **35%** more per upfront cost for sustainable purchases, such as recycled or eco-friendly goods. **57%** of them are even willing to change their purchasing habits to help reduce negative environmental impact.”⁶ This trend holds true especially for younger generations.

In **2020**, Gen-Z will influence **40%** of consumer shopping, and they base their purchasing decisions on their social and ethical values.⁷

83% of millennials state they are more loyal to a company that contributes to ESG causes.⁸

To generate loyalty, companies must show they are committed to driving change and understand the environmental and social causes important to their customers. Corporate social responsibility practices can tremendously boost customer loyalty, therefore helping a business demonstrate its purpose to stakeholders.

Corporate social responsibility connects with today’s consumers



Companies today are being called upon by their stakeholders to help address some of the world’s most challenging problems, including those concerning economic development and the environment. Corporate social responsibility practices that are well-aligned with corporate purpose can tremendously boost customer loyalty and retention.

Not surprisingly, companies with corporate social responsibility programs show up to a **20%** increase in sales,⁹ and a **5%** increase in customer retention yields a **25-95%** increase in profits, articulating how purpose and profit are intertwined more than ever in today’s society.¹⁰

⁶ “Meet the 2020 consumers driving change,” Karl Haller, Jim Lee, and Jane Cheung, National Retail Federation (NRF), January 2020, https://nrf.com/sites/default/files/2020-01/Meet%2020%20consumers%20driving%20change_01_0.pdf

⁷ “Gen-Z Will Account for 40 Percent Of All Consumers By 2020,” Lauryn Chamberlain, GeoMarketing, 8 May 2018, <https://geomarketing.com/gen-z-will-account-for-40-percent-of-all-consumers-by-2020>

⁸ “2016 Cone Communications Millennial Employee Engagement Study,” Cone | A Porter Novelli Company, <https://www.conecomm.com/research-blog/2016-millennial-employee-engagement-study>

⁹ “New study, commissioned by Verizon, addresses a persistent knowledge gap by analysing the financial impacts of corporate responsibility programs,” Brianna DiPietro, Babson™ Centennial, 7 September 2015, <https://www.babson.edu/about/news-events/babson-announcements/babson-io-sustainability-release-project-roi/>

¹⁰ “The Value of Keeping the Right Customers,” Amy Gallo, Harvard Business Review, 29 October 2014, <https://hbr.org/2014/10/the-value-of-keeping-the-right-customers>

Employee engagement

Higher employee turnover, changes in workplace environment, and shifting skills requirements accentuate the importance of employee engagement; companies that don't invest in their workforce risk falling behind.

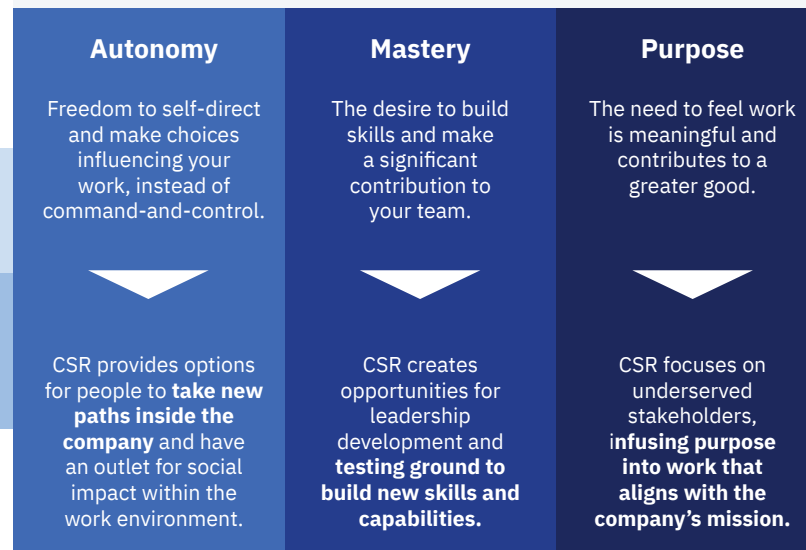
67% of employees are “not engaged” or “actively disengaged” at work.¹¹

16% of labor costs are attributed to **unwanted turnover**, according to CFOs, costing companies an estimated **\$5.2 trillion** globally.¹²

Due to the high cost of recruiting and training talent, the new propensity to switch jobs increases the importance of employee satisfaction and meeting employee expectations. Also, with the rise of remote work, part-time work, and contracting, maintaining team chemistry is increasingly difficult. Consequently, the workplace has become more impersonal.

As articulated in the Morning Consult results, the top priority impacting the likelihood of doing business at a global level is promoting quality jobs and skills, including investing in the future of the workforce. Employee engagement strategies aligned with corporate social responsibility help demonstrate a company’s commitment to promoting the jobs and skills of their employees, thereby directly aligning their business strategy with purpose.

Corporate social responsibility connects with today’s employees



Corporate social responsibility activates employee engagement by infusing meaning and purpose into work. According to a study from charity.org, **86%** of surveyed employees expect their employers to provide opportunities to engage in the community, and **87%** of surveyed employees expect employers to support causes and issues that matter to those employees.¹³

Reasonably, this research provides an explanation for the \$352 million in annual profits lost for the average Fortune 500 company with low engagement scores. Additionally, there is an estimated \$2.1 trillion in lost productivity due to disengaged employees each year in the \$80 trillion world economy.¹⁴ Finally, **16%** of labor costs are attributed to unwanted turnover, according to CFOs¹⁵, costing companies an estimated \$5.2 trillion globally.¹⁶

The value of using corporate social responsibility to drive employee engagement cannot be overstated for companies integrating purpose into their operations - employee engagement strategies reduce staff turnover, improve productivity and efficiency, retain customers at a higher rate, and even generate profits.

11 “Dismal Employee Engagement Is a Sign of Global Mismanagement,” Jim Harter, Gallup, <https://www.gallup.com/workplace/231668/dismal-employee-engagement-sign-global-mismanagement.aspx>

12 “There Are Significant Business Costs to Replacing Employees,” Heather Boushey and Sarah Jane Glynn, Center for American Progress, 16 November 2012, <https://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf>

13 “The New Bottom Line: Why Businesses Must Find Purpose Beyond Profit,” Salesforce blog, 24 June 2019, <https://www.salesforce.com/blog/2019/06/purpose-driven-business.html>

14 IBM Analysis, 2019

15 IDC, 2019

16 IBM Analysis, 2019

Stakeholder impact

Data is growing exponentially. Forecasts indicate 10x projected growth of worldwide data from 2017 to 2025¹⁷, which creates many opportunities but also leads to concerns about trust. The explosion of available data puts the onus on businesses to ethically collect data and analyze their impact to serve all stakeholders.

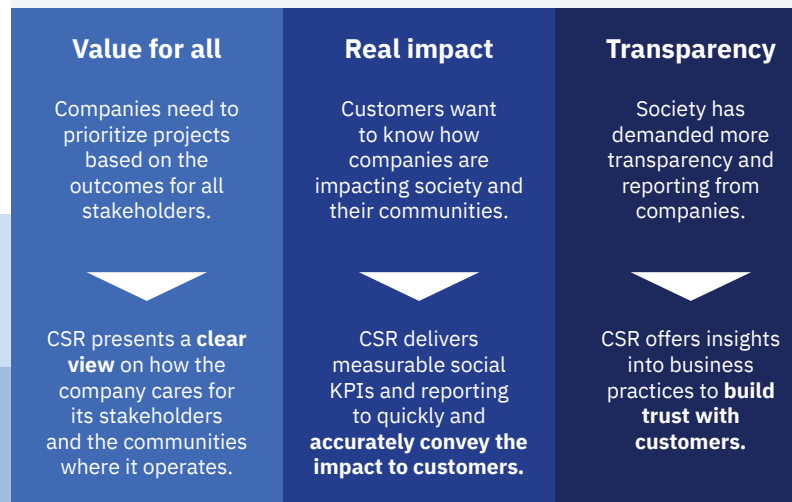
13% of business have identified the tools they need¹⁸ to assess their impact against the United Nation's sustainable development goals.

\$ 3 trillion estimated value of the global data economy¹⁹ with a 10.4% CAGR.²⁰

Currently, companies struggle to structure data, generate insights, and act on their information. Despite the growth in data, only a third of executives at large companies have succeeded in moving their company to a data driven culture.²¹

While these challenges persist, data also creates new opportunities to track and demonstrate social impact. With improved technology and an expectation of detailed reporting, data is expected to deliver value to all stakeholders. Through incorporating corporate social responsibility, companies can leverage data to quantify and demonstrate positive impact and purpose for a growing list of stakeholders.

Corporate social responsibility creates consumer trust



Corporate social responsibility measures aimed at protecting data integrity and transparency are crucial to establishing and fostering trust with stakeholders. Furthermore, analysis shows that typically one-third of corporate profits are at risk from state intervention. Certainly, it is becoming increasingly important for companies to take proactive action towards data responsibility, including promoting data privacy and security.²²

By gaining trust through integrating corporate social responsibility and establishing a strong purpose aligned with their strategic mission, companies can ease regulatory pressure, achieve greater strategic freedom, and effectively gain a competitive business advantage.

Summary

A growing body of evidence indicates that conducting business with purpose can help to create profits and new opportunities. Truly becoming a socially-conscious company and embedding purpose into organizational strategy can be a challenge since purpose is not one-size-fits-all and may mean different things to different companies based on their mission and values. In order to develop a true and authentic brand value proposition, the purpose driven activities must align tightly with the core mission and value of the company.

17 "The Digitization of the World from Edge to Core," Seagate, November 2018, <https://www.seagate.com/files/www-content/our-story/trends/files/idc-seagate-dataage-whitepaper.pdf>

18 "Make it your business: Engaging with the Sustainable Development Goals," pwc, https://www.pwc.com/gx/en/sustainability/SDG/SDG%20Research_FINAL.pdf

19 "The value of data," Vasudha Thirani and Arvind Gupta, World Economic Forum Annual Meeting, September 2017, <https://www.weforum.org/agenda/2017/09/the-value-of-data/>

20 IBM Analysis, 2019

21 "Big Companies are embracing analytics, but most still don't have a data-driven culture," Thomas H. Davenport and Randy Bean, Harvard Business Review, 15 February 2018, <https://hbr.org/2018/02/big-companies-are-embracing-analytics-but-most-still-dont-have-a-data-driven-culture>

22 "Five ways that ESG creates value," McKinsey & Company, November 2019, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>

IBM CSR Studio

Corporate social responsibility lives at the heart of IBM and influences how we work every day. This is why we aim to inspire strategic social impact at scale — for our clients and the world. No matter where you are on your journey to becoming a company with purpose, we can help you. The IBM CSR Studio offers our services to partner with, enhance and differentiate your company's corporate social responsibility initiatives. By leveraging the breadth of IBM capabilities and mobilizing our team of dynamic subject matter experts, we empower our clients to pursue their social responsibility goals to ensure purpose is intertwined with their business priorities.